

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

**A.** My name is H. Keith Oliver. My business address is 579 Stoney Landing Road, Moncks Corner, South Carolina 29461.

**Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

**A.** I am employed by Home Telephone Company, Inc. as the Company's Vice-President of Accounting and Finance.

**Q. PLEASE BRIEFLY OUTLINE YOUR EDUCATION, TRAINING, AND EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.**

**A.** I received a Bachelor of Science degree in Business Administration from the College of Charleston in May 1977. After being licensed as a Certified Public Accountant in May of 1979, I continued work in public accounting until October of 1984 when I was hired in the finance area at Home Telephone Company. In December of 1999, I was named Vice President of Finance and Accounting. In this position, I am responsible for all financial matters, including Carrier Access Billing Systems (CABS) for interLATA traffic, National Exchange Carrier Association (NECA) settlements for interstate traffic, and the settlement process for intraLATA toll. I have served on several South Carolina Telephone Association (SCTA) committees, including previously serving as Chairman of the SCTA Accounting Committee and currently serving as Chairman of the SCTA Interconnect Committee.

I am also associated with several national organizations. I serve as a board member for the Organization for the Promotion and Advancement of Small

Telecommunications Companies (OPASTCO). OPASTCO is an international trade organization representing over 500 small incumbent local exchange carriers serving primarily rural areas throughout the United States and portions of Canada. I serve on OPASTCO's Separations and Access Committee as well as their Universal Service Committee, the Committee which developed the recently published white paper entitled Universal Service in Rural America: A Congressional Mandate at Risk. In addition I serve on several committees for the United States Telecom Association (USTA). In addition to serving on USTA's universal service subcommittee and intercarrier compensation subcommittee, I am also a member of USTA's Regulatory Tactics Committee, the committee responsible for overseeing USTA's filings with the Federal Communications Commission (FCC) and other regulatory bodies.

I have appeared before this Commission many times in the past to present testimony on behalf of the SCTA and the South Carolina Telephone Coalition (SCTC), including many recent appearances before this Commission testifying on various Universal Service Funding issues.

**Q. WHO ARE YOU REPRESENTING IN THIS PROCEEDING BEFORE THE COMMISSION?**

**A.** I am here testifying on behalf of the South Carolina Telephone Coalition, an organization of rural incumbent local exchange companies. The companies participating in this docket are listed in Exhibit A to my testimony.

**Q. WHAT IS THE PURPOSE OF THIS PROCEEDING?**

**A.** ALLTEL Communications, Inc. ("ALLTEL") has asked the Commission to designate it as an Eligible Telecommunications Carrier (ETC) throughout the State of South Carolina. Being designated as an ETC would allow ALLTEL to draw federal universal service funds for the provision of service to its Commercial Mobile Radio Service (CMRS) customers, including those CMRS customers it already serves. Such a designation could also position ALLTEL to be eligible to draw State USF in the future. Section 214(e)(2) of the federal Telecommunications Act of 1996 (the "1996 Act") provides in part: "Before designating an additional eligible telecommunications carrier for an area served by a rural telephone company, the State commission shall find that the designation is in the public interest."

The public interest determination to be made is in considering ALLTEL's application is whether the benefit of providing universal service support to ALLTEL exceeds the costs of such support.

Thus, before designating ALLTEL as an ETC in South Carolina, the Commission must find not only that ALLTEL meets the statutory requirements to be an ETC in South Carolina, but also that it is in the public interest for multiple ETCs to be designated to serve customers in the rural areas of South Carolina. The burden of proof is on ALLTEL. If ALLTEL cannot prove that its designation as an ETC is in the public interest of rural South Carolinians, the Commission is obligated to deny the application.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

**A.** The purpose of my testimony is to present the SCTC's position with respect to ALLTEL's request. The SCTC believes that ALLTEL has not demonstrated that its designation as an ETC would serve the public interest. In fact, such a designation will likely have a significant adverse impact on the public interest. ALLTEL's request should, therefore, be denied.

**Q. WHY DOES THE SCTC OPPOSE THE ALLTEL FILING?**

**A.** SCTC members are very concerned about the impact this filing could have on rural subscribers. Approval of ETC status for ALLTEL, contrary to Mr. Mowery's testimony, will very likely have adverse consequences to customers in rural areas. Current federal universal service funding rules are in a state of disarray. State Public Service Commissions must step up to the plate to protect the rural consumers in their respective states.

Chief among our concerns with ALLTEL's application to be designated an ETC is the impact it would have on the size of the federal universal service fund program. Explosive growth in the federal USF could threaten the long-term viability of the fund, thereby jeopardizing the continued provision of affordable basic local exchange service to rural subscribers. We are also concerned that support will be afforded to a carrier that is clearly not providing the same quality or level of service that customers are accustomed to receiving from companies who are current recipients of the fund. Finally, approval as a federal ETC provider is likely to have a major impact on State USF.

**Q. ARE YOU INFERRING THAT THERE ARE PROBLEMS WITH THE EXISTING FEDERAL UNIVERSAL SERVICE FUND PROCEDURES?**

**A.** Yes. The federal USF mechanisms need modification to continue to perform their intended purpose. Much discussion has taken place on the regulatory and legislative levels in regard to these perceived problems. Congress has held several hearings on USF and more are scheduled. In fact, Matt Dosch from Comporium here in South Carolina recently testified before the Senate Commerce Committee on USF issues. The FCC has several open dockets to address problems with the current procedures, and the Federal State Joint Board has an open proceeding to address the various issues. In the mean time the burden falls to the states to ensure that the rural citizens of their respective states are not harmed by the flawed rules with which federal USF has been left to operate. Universal service funding was intended to ensure rural citizens would continue to enjoy quality telecommunications services comparable in price and type to their urban counterparts as the telecommunications market became competitive. This need was recognized as Congress knew competition would eliminate the ability to continue the implicit support built into many rates. Competition would be attracted to these profitable services in densely populated areas, and basic local service for rural subscribers would quickly become unaffordable. Universal service funding was not initiated to create competition, but rather was expressly designed as a mechanism to protect rural Americans from large increases in local service rates.

**Q. CAN YOU GIVE A BRIEF OVERVIEW OF THE VARIOUS COMPONENTS OF THE FEDERAL UNIVERSAL FUND AVAILABLE TO RURAL LOCAL EXCHANGE CARRIERS (LECS) AND EXPLAIN WHY EACH IS RECEIVED?**

**A.** Yes. It is very important that the Commission understand what funding ALLTEL is seeking to receive. In order to evaluate ALLTEL's right to receive these funds the Commission should be aware of the origins and reasons behind the different sources of federal universal service funding and why these funds are received by rural LECs.

The High Cost funding mechanism for rural carriers has four components. They are: (1) High Cost Loop fund; (2) local switching support; (3) Long Term Support; and (4) Interstate Common Line Support.

One of the largest components of a rural LEC's USF support comes from the high cost loop fund. This fund was created in 1987 as a result of the transition of local loop cost from the interstate jurisdiction to the state jurisdiction. The FCC was concerned that the large shift to state jurisdiction would result in major increases in local state rates. To prevent this, loop cost in excess of 115% of the national average was assigned to the new fund. Prior to the creation of the comprehensive federal universal service fund this fund was recovered by assessments to interexchange (long distance) carriers (IXCs). The 1996 Act shifted funding requirements to the new federal universal service fund. To receive this funding rural LECs are required to submit detailed cost studies proving that local loop cost exceeds the national average. Competitive ETCs (CETCs) are not required to

show any cost justification; they simply recover the same funding as the Incumbent LEC, regardless of their cost.

The second component of federal USF is Local Switching Support. This support is available only to rural LECs who serve fewer than 50,000 access lines. The support is intended to help offset the higher cost of switching where the switch is servicing a relatively small customer base. Prior to receipt from the federal USF this revenue was recovered from interstate access charges for local switching. CETCs, regardless of their size, receive this funding,

The third component of federal USF is Long Term Support. This element arose from the withdrawal of the larger LECs from the NECA interstate carrier common line pool. The larger urban LECs had lower common line costs and thus were net contributors to the NECA Common line pool. As a condition of leaving the NECA pool the FCC required the larger LECs to continue their support to the pool. This was done in order to keep rural LECs' interstate common line access rates in line with the larger LECs' interstate common line access rates to facilitate the required averaging of toll rates. The 1996 Act also moved this support mechanism into the federal universal service fund. CETCs were not members of the NECA pools and thus never received this long term support funding; yet once again they are allowed to receive the same funding from federal USF as the rural LECs.

The fourth and final component of federal USF was just recently added. The FCC eliminated the interstate portion of the carrier common line (CCL) charge. To offset the reduction of the federal CCL to zero, rural LECs were required by

NECA to increase the subscriber line charge (SLC) to \$6.50 for residential and single line business subscribers. The difference not recovered from the SLC increases was transferred to the new Interstate Common Line Support (ICLS) portion of the federal universal service fund. Again, CETCs were never in the NECA pool and are not required to charge SLCs, but yet are allowed to receive the same funding from this support mechanism as the rural ILEC.

One can easily see that each component of the federal USF received by rural incumbent local exchange carriers (ILECs) is based on specific actual costs incurred by the rural ILEC or is intended to replace specific revenues previously received by the rural ILEC.

**Q. WHY SHOULD THIS COMMISSION BE CONCERNED ABOUT THE CONFUSION THAT EXISTS OVER FEDERAL UNIVERSAL PROCEDURES?**

A. State commissions are the final guardians of the public interest within their respective states. The states have been given the obligation of determining whether it is in the public interest to allow multiple ETCs in rural areas. If this commission should determine that existing federal procedures do not adequately protect the interests of rural subscribers in South Carolina, this Commission has not only the right but the duty to deny applications for designation of additional ETCs in rural areas. This Commission has been among the leaders in the nation in addressing state USF issues. It has been one of the few regulatory bodies that has taken significant steps to protect its citizens' access to affordable basic local



telephone service. This Commission is in a position to provide national leadership in regard to ETC issues.

**Q. WHY IS THE SIZE OF THE FEDERAL USF A CONCERN TO SOUTH CAROLINA'S RURAL CUSTOMERS?**

A. The universal service fund was created to ensure rural customers would continue receiving basic local telephone service at rates that are both affordable and comparable to rates in the nation's urban markets. However, the fund has been greatly expanded for what may well be worthwhile programs, such as schools and libraries, rural health care, etc. These additions have doubled the size of the fund and have led to surcharges on customer bills approaching 10%. This in turn has led to a proceeding before the FCC to reconsider many fundamental issues relating to the Federal USF. As discussed in more detail in Mr. Meredith's testimony, these federal proceedings will address issues including how Federal USF is funded, how portability of the fund should be addressed, what level of cost should be recovered, and the possibility of capping the size of the fund. It is clear there is a socially acceptable upper level for the fund, above which funding may not be provided. ALLTEL's request for ETC status cannot be considered in a vacuum. Indeed, ALLTEL has filed petitions for ETC status in states across the southeast. In addition, it should be clear to all that in a market as competitive as wireless service, the approval of one wireless provider will force all other providers to seek funding as well. The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) has

estimated that designation of wireless carriers as ETCs could result in approximately 2 billion dollars in additional federal USF requirements for the High Cost portion of the federal USF.<sup>1</sup> This is a 60% potential increase in a fund that is currently \$3.4 billion. Clearly this level of increased funding would threaten the ability to continue funding rural areas as envisioned in the 1996 Act. Of course, the South Carolina Public Service Commission can only act on those applications that arise from companies operating in South Carolina. But each state must do its part to ensure funding is only expanded where it is clearly in the public interest to do so.

**Q. IN THE PAST, HAS THE FCC EXPRESSED CONCERN ABOUT THE SIZE OF THE FEDERAL FUND?**

**A.** Yes. In the mid-1990's, the FCC's concern over the size of the federal USF led them to place a cap on the annual rate of growth in the size of the high cost loop fund, a component of the federal High Cost funding mechanism for rural carriers.

**Q. ALLTEL CONTENDS ITS RECEIPT OF SUPPORT FROM THE FEDERAL USF WILL NOT IMPACT OTHER COMPANIES (PAGE 10, LINE 14). DO YOU AGREE?**

**A.** No. ALLTEL's comments are based on the mistaken notion that the way federal USF is administered will not change. It is true that current procedures governing payment of support to ETCs do not, in theory, result in the reduction of support

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<sup>1</sup> See Universal Service in America: A Congressional Mandate at Risk, (OPASTCO Universal Service Committee) (January 2003) at p. 21.

paid to rural carriers. However, several dockets are currently open on the federal side which could drastically alter the way funding is handled. In fact the increased growth of the fund will all but ensure such actions are taken.

**Q. IF ALLTEL PROVIDES ETC SERVICES, SHOULDN'T IT BE ENTITLED TO THE SAME SUPPORT RECEIVED BY THE ILEC?**

**A.** This is the key question of this proceeding. First, ALLTEL is not providing the same service as the ILECs. Second, even if ALLTEL were providing the same service as the ILECs, Congress has stated that the Commission must find that designation of ALLTEL as an additional ETC is in the public interest before it designates ALLTEL as an ETC to serve rural areas of South Carolina.

Universal service funding is intended to ensure the provision of basic local service to rural customers at affordable rates that are comparable in quality, service and price to urban areas. As ILECs, we are required to offer stand-alone basic local service with unlimited local calling at a rate approved by the Commission. The statewide average of the basic local exchange rates approved by this Commission for residential customers of ILECs in South Carolina is \$14.35. In addition, we are subject to quality of service standards, which require detailed reporting. Unless the Commission explicitly requires it, ALLTEL will not be subject to these requirements. While ALLTEL's application is somewhat vague on these points, it appears that they do not intend either to offer a stand-alone unlimited local calling plan or to be subject to the same reporting standards or quality of service standards that the Commission applies to other ETCs (i.e., ILECs).

**Q. IS THERE A DIFFERENCE BETWEEN UNIVERSAL SERVICE FUNDING FOR ILECS AND FOR COMPETITIVE ETC'S?**

**A.** Yes. This is the reason that issues surrounding universal service for multiple ETCs are currently pending before the Federal Communications Commission. For rural ILECs, USF is based on their embedded cost of providing service. Thus, it is a cost recovery mechanism. The funding allows rural ILECs to continue to provide affordable universal service to customers in the current telecommunications environment while recovering their costs on a revenue neutral basis.

CETCs, on the other hand, draw universal service funding based on the ILEC's cost for the area served. From the CETC's standpoint, this amount is arbitrary and has no relation to its actual cost of providing service.

In ALLTEL's case, for example, it already provides wireless service throughout South Carolina and has been doing so, without federal USF support. ALLTEL proposes to receive federal USF for all of these existing CMRS customers. CETCs do not have the same need for funding that ILECs have in order to recover the cost of serving their customers. ALLTEL's business plan already provides, or should provide, for it to earn a profit at the current rates charged. Any support received will be in excess of that amount. While ALLTEL may argue it has a "need" for the funds to upgrade facilities, provide better service, or serve additional customers, it is clear that ALLTEL built out its current network and acquired its current customer base in South Carolina without the expectation of

universal service funding. In that respect, if ALLTEL's application is approved, ALLTEL will experience a windfall of funding for its existing customer base. Furthermore, ALLTEL has not told the Commission how the funds it receives will be spent, and apparently does not intend to tell the Commission or to provide any proof that the funds will be spent only for the purposes for which the support is intended and only in those areas for which the support was received.

**Q. WHY SHOULD ALLTEL BE REQUIRED TO DEMONSTRATE THAT THE FEDERAL USF IT RECEIVES WILL BE TARGETED TO THOSE AREAS FOR WHICH THE SUPPORT WAS DESIGNATED AND RECEIVED?**

**A.** It is critical that any support received by a CETC be spent in the area for which it is received and for the purposes for which it was intended. To do otherwise would violate the 1996 Act and render the public interest determination for designating additional ETCs in rural areas meaningless. It is most certainly not in the public interest for a CETC to serve rural customers, obtain federal USF for doing so, and then turn around and spend those funds to upgrade facilities in a more urban area or even a different rural area which it also serves. ALLTEL has presented no plan that would allow the Commission to ensure that the federal USF received by ALLTEL will indeed be used for appropriate purposes and targeted to appropriate areas.

**Q. YOU SAID UNIVERSAL SERVICE FUNDING ALLOWS ILECs TO RECOVER THEIR COSTS ON A REVENUE NEUTRAL BASIS. PLEASE EXPLAIN.**

**A.** For ILECs, federal and state universal service funding is a part of their cost recovery. It is not “new money” or a windfall for ILECs, but involves a shift from implicit to explicit support. Support for basic local exchange service that is implicit (i.e., contained in rates for other services) is identified and moved into an explicit fund so that the support or revenue stream can be maintained. Thus, federal and state universal service funding is revenue neutral and is a critical component of recovering the cost of providing basic local exchange service to their customers.

**Q. IS ALLTEL’S COST OF PROVIDING SERVICE THE SAME AS THE ILEC SERVING THE AREA?**

**A.** ALLTEL provides no information to determine how its costs compare to those of the ILECs serving the areas in which ALLTEL seeks ETC status.

ALLTEL is not required to submit cost, another difference from the ILEC serving the same area. This is an important distinction. USF is intended to offset the legitimately higher cost of serving rural customers. As ILECs, we have only received USF to offset actual cost, and only then in a revenue neutral manner. All funding received by ALLTEL would be in addition to its current revenue flows. ALLTEL offers only the statement that it will invest these funds

appropriately. No build out plan is offered, nor is any mechanism to allow for the audit of funds received suggested.

**Q. ALLTEL ON PAGE 8 OF MR. MOWERY'S TESTIMONY CONTENTS THAT IT MEETS THE PUBLIC INTEREST STANDARD FOR DESIGNATION AS AN ETC IN RURAL AREAS MERELY BY BRINGING THE BENEFITS OF COMPETITION TO THE MARKETPLACE. DO YOU AGREE?**

**A.** No. If Congress had intended for carriers to be designated ETCs merely by stating they would provide customers with a choice of providers, there would have been no need to put language in Section 214 requiring the state Commission to make a determination that such designation is in the public interest before designating multiple ETCs in rural areas.

It is also important to not that there are already multiple CMRS providers – including ALLTEL – operating in the rural areas of South Carolina. A vague reference to competition is not sufficient to justify the expenditure of universal service funds to support such service.

**Q. ALLTEL ALSO STATES (PAGE 9 OF MR. MOWERY'S TESTIMONY) THAT, WITHOUT COMPETITION, THE INCUMBENT LEC HAS LESS INCENTIVE TO INTRODUCE NEW, INNOVATIVE, OR ADVANCED SERVICE OFFERINGS. IS THIS TRUE?**

**A.** No. First, advanced services do not fall within the definition of universal service and are not services upon which federal USF can be expended. Second, these

services are for the most part already available in the rural areas of South Carolina. South Carolina's rural incumbent LECs have been on the forefront of technological advancement in telecommunications.

In fact, designation of multiple ETCs in rural areas may actually impair the development and availability of advanced telecommunications services. To the extent the long-term viability of state and federal universal service funds is jeopardized, incumbent LECs may have a difficult time continuing service in rural areas.

**Q. ALLTEL ALSO NOTES THAT ITS BROADER CALLING SCOPE WILL SERVE THE PUBLIC INTEREST. IS THIS AN ELIGIBLE ITEM INCLUDED IN THE DEFINITION OF UNIVERSAL SERVICE?**

**A.** No. Universal service relates to basic local exchange service, and funding decisions should not be made on the basis of calling scope.

**Q. YOU MENTIONED A CONCERN THAT ALLTEL'S FILING COULD HAVE A MAJOR IMPACT ON THE STATE USF. ALLTEL'S APPLICATION RELATES TO FEDERAL USF ONLY. WHY ARE THE SCTC COMPANIES CONCERNED ABOUT THE STATE USF IN THIS FILING?**

**A.** If ALLTEL is successful in gaining ETC status it will receive federal USF funding. If ALLTEL gains federal USF support, the next logical argument is that it is entitled to state support, and that it would not be competitively neutral for the Commission to deny ALLTEL funding from the State USF. This is especially



true in light of the fact that, if ALLTEL is designated an ETC, it will be required to contribute to the State USF.

**Q. BASED ON YOUR EXPERIENCE BOTH HERE IN SOUTH CAROLINA AND NATIONALLY, WHAT IS YOUR GENERAL IMPRESSION OF ALLTEL'S FILING REQUESTING STATUS AS AN ETC?**

**A.** As indicated earlier, the federal USF rules and procedures are problematic. As discussed in my testimony, rural LECs receive federal USF support for very specific purposes, based on their actual cost of providing service in rural, sparsely populated areas. We are subject to Commission guidelines as to quality of service, rates and overall earnings. Federal requirements mandate that we use these funds for their intended purpose within our study area, and in order to recover these funds we have had to give up access revenues or other funding mechanisms on a revenue neutral basis. ALLTEL seems to be attempting to take advantage of the current dysfunctional federal rules to collect additional revenues. In both their testimony and responses to SCTC interrogatorics, ALLTEL indicates it does not know how much funding it will receive. ALLTEL has not presented any cost data or indicated it even has a system in place to ensure support received for a specific rural area will be spent in that specific area. ALLTEL does not indicate that any new rate plans will be developed and indeed indicate that it intends to receive funding for all existing rate plans and customers. In addition, ALLTEL rejects any Commission oversight of the services for which they will receive universal service support. If ALLTEL can not present data to support

what it has invested in each rural service, and has not presented data on what it will spend in those areas both with and without USF support, there is no way to determine how funding will be used. The federal rules delegate to the states the final decision for approval of ETC status. Our Commission has both the right and duty to make a decision that will aid in the continued provision of affordable service to all citizens of South Carolina.

**Q. WHAT SHOULD THE COMMISSION DO IN REGARDS TO THIS PROCEEDING?**

A. We respectfully request that the Commission continue South Carolina's national leadership on State USF matters by addressing ALLTEL's application in a way that protects the viability of state and federal universal service funds and, in turn, the interests of South Carolina's citizens, particularly rural telephone customers. The Commission should deny ALLTEL's request for designation as an ETC in South Carolina, because ALLTEL has not demonstrated that the public benefits of such a designation, and the receipt of universal service support associated with such a designation, outweigh the public costs that would result from such a designation.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes, it does.